

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2004

## PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

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PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

BOARD OF DIRECTORS

| NAME              | TITLE              | TERM EXPIRES  |
|-------------------|--------------------|---------------|
| Laura Cerny       | President          | October, 2006 |
| Dan Barrett       | Vice-President     | October, 2005 |
| Leonard Worden    | Secretary          | October, 2005 |
| Robert Erickson   | Treasurer          | October, 2005 |
| Tana Olson        | Member             | October, 2006 |
| Steve Wolfe       | Member             | October, 2005 |
| Robert Ermer      | Member             | October, 2005 |
| Robert Benck      | Member             | October, 2005 |
| Robert Cink       | Member             | October, 2005 |
| Arlin Enabnit     | Member             | October, 2006 |
| Betty McCarthy    | Member             | October, 2005 |
| JoEllen Steil     | Member             | October, 2006 |
| William Pritchard | Member             | October, 2006 |
| Charles Stock     | Member             | October, 2005 |
| Cheryl Jahnelt    | Member             | October, 2006 |
| Jay Urdahl        | Member             | October, 2005 |
| Doug Yeager       | Member             | October, 2006 |
| Jay Hansen        | Executive Director | Indefinite    |

**WILLIAMS & ASSOCIATES, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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MICHAEL R. BAKER, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Prairie Ridge Addiction Treatment Services  
Mason City, Iowa

We have audited the accompanying statements of financial position of Prairie Ridge Addiction Treatment Services as of June 30, 2004 and 2003, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Ridge Addiction Treatment Services as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 2004 on our consideration of the Organization's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Prairie Ridge Addiction Treatment Services taken as a whole. The supplemental information included on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned basic financial statements taken as a whole.

*Williams & Associates, P.L.C.*

Williams & Associates, P.L.C.  
Certified Public Accountants

Mason City, Iowa  
October 18, 2004

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF FINANCIAL POSITION

June 30, 2004 and 2003

| ASSETS  |    | 2004                | 2003                |
|---|----|---------------------|---------------------|
| CURRENT ASSETS  |    |                     |                     |
| Cash - undesignated   | \$ | 591,566             | \$ 225,626          |
| Cash - Board designated   |    | 2,522,402           | 2,510,469           |
| Marketable securities - Board designated  |    | 3,338,236           | 2,737,205           |
| Accounts receivable, less allowance<br>for doubtful accounts of \$226,580 and \$131,759 |    | 373,881             | 299,836             |
| Pledge receivable   |    | 76,284              | --                  |
| Grant receivable  |    | 316,000             | --                  |
| Interest receivable   |    | 4,879               | 4,557               |
| Prepaid expenses  |    | 14,633              | 14,367              |
| Total current assets  |    | <u>\$ 7,237,881</u> | <u>\$ 5,792,060</u> |
| PROPERTY AND EQUIPMENT  |    |                     |                     |
| Land and improvements   | \$ | 91,992              | \$ 91,992           |
| Building  |    | 2,030,092           | 1,717,409           |
| Furniture, fixtures, and equipment  |    | 532,474             | 531,073             |
| Automobile  |    | 41,217              | 41,217              |
|   |    | <u>\$ 2,695,775</u> | <u>\$ 2,381,691</u> |
| Less accumulated depreciation   |    | 1,188,191           | 1,097,412           |
|   |    | <u>\$ 1,507,584</u> | <u>\$ 1,284,279</u> |
|   |    | <u>\$ 8,745,465</u> | <u>\$ 7,076,339</u> |
| LIABILITIES AND NET ASSETS  |    |                     |                     |
| CURRENT LIABILITIES   |    |                     |                     |
| Accounts payable  | \$ | 127,641             | \$ 40,371           |
| Accrued expenses  |    |                     |                     |
| Payroll   |    | 54,844              | 36,973              |
| Vacation  |    | 65,267              | 54,716              |
| Other   |    | 33,067              | 42,342              |
| Total current liabilities   |    | <u>\$ 280,819</u>   | <u>\$ 174,402</u>   |
| NET ASSETS  |    |                     |                     |
| Unrestricted  |    |                     |                     |
| Undesignated  | \$ | 2,200,562           | \$ 1,654,263        |
| Designated by the Board of Directors  |    | 5,860,638           | 5,247,674           |
| Temporarily restricted  |    | 403,446             | --                  |
| Total net assets  |    | <u>\$ 8,464,646</u> | <u>\$ 6,901,937</u> |
|   |    | <u>\$ 8,745,465</u> | <u>\$ 7,076,339</u> |

See Notes to Financial Statements

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2004 and 2003

| UNRESTRICTED NET ASSETS                             | 2004                | 2003                |
|---|---------------------|---------------------|
| OPERATING REVENUES AND SUPPORT                      |                     |                     |
| Iowa Department of Public Health:                   |                     |                     |
| Treatment programs                                  | \$ 1,226,761        | \$ 1,222,515        |
| Prevention programs                                 | 136,285             | 72,629              |
| Client fees   | 996,332             | 814,108             |
| Second Judicial District Department of Corrections: |                     |                     |
| OWI/TASC  | 35,000              | 42,000              |
| Drug Court  | 10,000              | 10,000              |
| County of Cerro Gordo                               |                     |                     |
| ALERT Program                                       | 64,770              | 68,921              |
| AEA subcontract                                     | 47,880              | 59,394              |
| Counties  | 90,134              | 90,134              |
| Cities  | 4,500               | 7,000               |
| United Way  | 45,896              | 37,704              |
| Other income  | 73,943              | 47,971              |
| TOTAL OPERATING REVENUE AND SUPPORT                 | <u>\$ 2,731,501</u> | <u>\$ 2,472,376</u> |
| OPERATING EXPENSES                                  |                     |                     |
| Program services                                    | \$ 1,690,943        | \$ 1,516,034        |
| Support services                                    | 670,860             | 583,459             |
| TOTAL EXPENSES                                      | <u>\$ 2,361,803</u> | <u>\$ 2,099,493</u> |
| INCREASE IN NET ASSETS FROM OPERATIONS              | \$ 369,698          | \$ 372,883          |
| NONOPERATING REVENUE (LOSSES)                       |                     |                     |
| Donations   | 153,801             | 4,119               |
| Grant income  | 116,007             | --                  |
| Interest and dividends                              | 106,426             | 108,193             |
| Gain (loss) on investments                          | 529,338             | (18,870)            |
| Loss on disposal of equipment                       | --                  | (17)                |
| INCREASE IN UNRESTRICTED NET ASSETS                 | <u>\$ 1,275,270</u> | <u>\$ 466,308</u>   |
| TEMPORARILY RESTRICTED NET ASSETS                   |                     |                     |
| Donations   | \$ 87,446           | \$ --               |
| Grant income  | 199,993             | --                  |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS       | <u>\$ 287,439</u>   | <u>\$ --</u>        |
| INCREASE IN NET ASSETS                              | \$ 1,562,709        | \$ 466,308          |
| NET ASSETS – BEGINNING OF YEAR                      | <u>6,901,937</u>    | <u>6,435,629</u>    |
| NET ASSETS – END OF YEAR                            | <u>\$ 8,464,646</u> | <u>\$ 6,901,937</u> |

See Notes to Financial Statements

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2004 and 2003

|                           | -----2004-----   |             |              |                           |              | -----2003-----   |             |              |                           |              |
|---------------------------|------------------|-------------|--------------|---------------------------|--------------|------------------|-------------|--------------|---------------------------|--------------|
|                           | Program Services |             |              | Support<br>Services       |              | Program Services |             |              | Support<br>Services       |              |
|                           | Outpatient       | Residential | Total        | Management<br>and General | Total        | Outpatient       | Residential | Total        | Management<br>and General | Total        |
| Salaries                  | \$ 564,061       | \$ 344,782  | \$ 908,843   | \$ 355,894                | \$ 1,264,737 | \$ 502,069       | \$ 328,760  | \$ 830,829   | \$ 292,934                | \$ 1,123,763 |
| Payroll tax               | 41,375           | 25,290      | 66,665       | 26,106                    | 92,771       | 37,620           | 24,634      | 62,254       | 21,950                    | 84,204       |
| Employee benefits         | 79,625           | 53,988      | 133,613      | 47,950                    | 181,563      | 66,118           | 58,324      | 124,442      | 42,038                    | 166,480      |
| Contracted services       | 119,256          | 8,825       | 128,081      | 24,018                    | 152,099      | 109,155          | 11,538      | 120,693      | 23,743                    | 144,436      |
| Supplies                  |                  |             |              |                           |              |                  |             |              |                           |              |
| Office                    | 5,861            | 1,806       | 7,667        | 26,950                    | 34,617       | 6,493            | 3,145       | 9,638        | 22,334                    | 31,972       |
| Food                      | --               | 68,159      | 68,159       | --                        | 68,159       | --               | 64,132      | 64,132       | --                        | 64,132       |
| Subscriptions & materials | 31,774           | 11,171      | 42,945       | 4,229                     | 47,174       | 37,839           | 6,703       | 44,542       | 2,255                     | 46,797       |
| Postage                   | 850              | 4           | 854          | 7,335                     | 8,189        | 1,363            | --          | 1,363        | 5,726                     | 7,089        |
| Occupancy                 |                  |             |              |                           |              |                  |             |              |                           |              |
| Rent                      | 14,217           | --          | 14,217       | --                        | 14,217       | 12,706           | --          | 19,745       | 3,853                     | 16,559       |
| Laundry                   | --               | 7,386       | 7,386        | --                        | 7,386        | --               | 7,039       | --           | --                        | 7,039        |
| Utilities                 | 13,883           | 24,287      | 38,170       | 11,993                    | 50,163       | 12,625           | 22,787      | 35,412       | 13,740                    | 49,152       |
| Insurance                 | 4,821            | 5,629       | 10,450       | 12,456                    | 22,906       | 5,201            | 7,396       | 12,597       | 11,441                    | 24,038       |
| Telephone                 | 4,773            | 1,082       | 5,855        | 7,772                     | 13,627       | 4,732            | 1,086       | 5,818        | 9,850                     | 15,668       |
| Travel and training       | 16,561           | 1,170       | 17,731       | 18,144                    | 35,875       | 12,101           | 2,530       | 14,631       | 7,881                     | 22,512       |
| Repairs and maintenance   | 1,836            | 3,429       | 5,265        | 42,143                    | 47,408       | 2,343            | 2,905       | 5,248        | 31,405                    | 36,653       |
| Expendable equipment      | 4,765            | 1,392       | 6,157        | 4,421                     | 10,578       | 3,035            | 1,009       | 4,044        | 4,675                     | 8,719        |
| Other                     | 28,300           | 1,732       | 30,032       | 23,390                    | 53,422       | 38,451           | 1,494       | 39,945       | 29,733                    | 69,678       |
| Depreciation              | 21,983           | 30,237      | 52,220       | 58,059                    | 110,279      | 21,908           | 28,654      | 50,562       | 59,901                    | 110,463      |
| Bad debts                 | 44,778           | 101,855     | 146,633      | --                        | 146,633      | 54,739           | 15,400      | 70,139       | --                        | 70,139       |
| Total expenses            | \$ 998,719       | \$ 692,224  | \$ 1,690,943 | \$ 670,860                | \$ 2,361,803 | \$ 928,498       | \$ 587,536  | \$ 1,516,034 | \$ 583,459                | \$ 2,099,493 |

See Notes to Financial Statements

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2004 and 2003

|   | 2004                         | 2003                         |
|---|------------------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES  |                              |                              |
| Increase in net assets  | \$ 1,562,709                 | \$ 466,308                   |
| Adjustment to reconcile increase in net assets<br>to net cash provided by operating activities: |                              |                              |
| Depreciation  | 110,279                      | 110,463                      |
| (Gain) loss on investments  | (529,338)                    | 18,870                       |
| Loss on disposal of assets  | --                           | 17                           |
| Change in assets and liabilities:   |                              |                              |
| Increase in receivables   | (466,651)                    | (2,771)                      |
| (Increase) decrease in prepaid expenses   | (266)                        | 1,210                        |
| Increase in accounts payable  | 87,270                       | 4,643                        |
| Increase in accrued expenses  | 19,147                       | 121                          |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | <u>\$ 783,150</u>            | <u>\$ 598,861</u>            |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                              |                              |
| Purchase of property and equipment  | \$ (333,584)                 | \$ (17,245)                  |
| Purchase of investments   | <u>(71,693)</u>              | <u>(63,004)</u>              |
| NET CASH USED IN INVESTING ACTIVITIES   | <u>\$ (405,277)</u>          | <u>\$ (80,249)</u>           |
| NET INCREASE IN CASH  | \$ 377,873                   | \$ 518,612                   |
| CASH AT BEGINNING OF YEAR   | <u>2,736,095</u>             | <u>2,217,483</u>             |
| CASH AT END OF YEAR   | <u>\$ 3,113,968</u><br>===== | <u>\$ 2,736,095</u><br>===== |

See Notes to Financial Statements



PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

Note 1. Nature of Activities

Prairie Ridge Addiction Treatment Services is a voluntary not-for-profit corporation as described in Section 501(c)(3) of the Federal Internal Revenue Code. The purpose of the Organization is to provide education and counseling for substance abusers and their families and to provide residential care and halfway house services for substance abusers. Services are open to admissions on a statewide basis but the Organization primarily serves the eight-county area surrounding Mason City, Iowa. Prairie Ridge Addiction Treatment Services extends credit to clients based on an ability to pay and collects whenever possible. Public support is also solicited from the counties served by the Agency and from state agencies.

Note 2. Significant Accounting Policies

Accounting Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Allowance for Doubtful Accounts

Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Marketable securities

Prairie Ridge carries marketable securities in the statement of financial position at fair market value. Unrealized gains and losses are included in the statement of activities.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

Note 2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded at cost and depreciated over their estimated useful lives using the straight-line method. Depreciation expense for the years ended June 30, 2004 and 2003 totalled \$110,279 and \$110,463, respectively.

Note 3. Marketable Securities

Marketable securities at June 30, 2004 and 2003 are recorded at market value as follows:

|                                       | 2004                |              | 2003                |              |
|---------------------------------------|---------------------|--------------|---------------------|--------------|
|                                       | <u>Market Value</u> | <u>Cost</u>  | <u>Market Value</u> | <u>Cost</u>  |
| Common stocks and equity mutual funds | \$ 333,826          | \$ 3,498,666 | \$ 2,737,205        | \$ 3,426,974 |

Note 4. Retirement Plan

Prairie Ridge has adopted a defined contribution retirement plan covering substantially all employees. Contributions to the plan are made at the discretion of the Board of Directors and totalled \$65,697 and \$61,513 for the years ended June 30, 2004 and 2003 respectively.

Note 5. Income Taxes

Prairie Ridge is exempt from income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Note 6. Net Assets - Board Designated

Prairie Ridge has designated a portion of its net assets to be used for future construction, special projects and renovation or replacement of fixed assets. These assets represent otherwise spendable unrestricted funds which the Board of Directors has chosen to invest for these specific purposes.

Note 7. Operating Leases

The Organization's Mason City facility is located on a leased site under a prepaid lease which expires in 2089. The Organization's Algona and Charles City operations are conducted from facilities under month-to-month rental agreements. Rental expense for all operations totalled \$14,218 and \$16,559 for the years ended June 30, 2004 and 2003, respectively.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

Note 8. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Note 9 Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Note 10. Major Source of Revenue

Approximately half of the Organization's revenue is received from a Federal Block Grant for Prevention and Treatment of Substance Abuse passed through the State of Iowa.

Note 11. Construction Project

During the year ended June 30, 2004, Prairie Ridge began construction of an addition to its existing building. This facility expansion will allow the Organization to add office space and group room space to address the increased demand for services and add critical group and meeting space to the residential and outpatient programs.

The \$1,100,000 estimated cost of this project is being funded with a \$316,000 Community Development Block Grant, donations, and cash reserves. During the year ended June 30, 2004, \$312,682 of project costs had been incurred and included in the June 30, 2004 financial statements.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2004

| <u>FEDERAL GRANTOR/<br/>PASS-THROUGH GRANTOR/PROGRAM TITLE</u>   | <u>CFDA<br/>NUMBER</u> | <u>PROGRAM<br/>AMOUNT</u> |
|--|------------------------|---------------------------|
| INDIRECT:  |                        |                           |
| U.S. Department of Health and Human Services:  |                        |                           |
| Passed through the Iowa Department of Public Health:   |                        |                           |
| Block Grants for Prevention and<br>Treatment of Substance Abuse:<br>Comprehensive Treatment Program    | 93.959                 | \$ 460,035                |
| State Incentive Grant Program 2004   | 93.230                 | 107,273                   |
| Prevention of Methamphetamine Abuse  | 93.243                 | 29,011                    |
| U.S. Department of Justice:  |                        |                           |
| Passed through the County of Cerro Gordo, Iowa:  |                        |                           |
| Edward Byrne Memorial State and Local Law<br>Enforcement Assistance Grant Program                      | 16.579                 | 64,770                    |
| U.S. Department of Housing and Urban Development:  |                        |                           |
| Passed through the Iowa Department of Economic Development<br>through the County of Cerro Gordo, Iowa: |                        |                           |
| Community Development Block Grant  | 14.228                 | <u>116,007</u>            |
|  |                        | \$ 777,096                |
|  |                        | =====                     |

Note 1. Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of Prairie Ridge Addiction Treatment Services and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Amount of Federal Award

During the year ended June 30, 2004, funds totalling \$1,226,761 were received from the Iowa Department of Public Health. These grants include both federal (CFDA 93.959) and state awards. The amount reported on this schedule represents the federal portion of the grants.

**WILLIAMS & ASSOCIATES, P.L.C.**  
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors  
Prairie Ridge Addiction Treatment Services  
Mason City, Iowa

We have audited the financial statements of Prairie Ridge Addiction Treatment Services as of and for the year ended June 30, 2004, and have issued our report thereon dated October 18, 2004. We conducted our audit in accordance with generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether financial statements of Prairie Ridge Addiction Treatment Services are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Organization's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Prairie Ridge Addiction Treatment Services. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is a material weakness. The current status of prior audit findings is reported in a separate schedule.

This report, a public record by law, is intended solely for the information and use of the management of Prairie Ridge Addiction Treatment Services and other parties to whom the Organization may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Ridge Addiction Treatment Services during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Williams & Associates, P.L.C.*

Williams & Associates, P.L.C.  
Certified Public Accountants

Mason City, Iowa  
October 18, 2004

**WILLIAMS & ASSOCIATES, P.L.C.**  
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MICHAEL R. BAKER, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE

Board of Directors  
Prairie Ridge Addiction Treatment Services  
Mason City, Iowa

Compliance

We have audited the compliance of Prairie Ridge Addiction Treatment Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on compliance with those requirements by Prairie Ridge Addiction Treatment Services.

In our opinion Prairie Ridge Addiction Treatment Services complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Prairie Ridge Addiction Treatment Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for those purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, is a material weakness.

This report, a public record by law, is intended solely for the information and use of the management of Prairie Ridge Addiction Treatment Services and other parties to whom the Organization may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Williams & Associates, P.L.C.*

Williams & Associates, P.L.C.  
Certified Public Accountants

Mason City, Iowa  
October 18, 2004



PRAIRIE RIDGE ADDICTION TREATMENT SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2004

Part 1: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements. The reportable condition was considered a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements. The reportable condition was considered a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - CFDA Number 93.959      Block Grant for Prevention and Treatment of Substance Abuse
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Ridge Addiction Treatment Services did not qualify as a low-risk auditee.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2004

Part II: Findings Related to the General Purpose Financial Statements

REPORTABLE CONDITION:

04-II-A      Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Organization's financial statements. As noted in prior years, one individual has custody of receipts and performs all recordkeeping and reconciling functions for the office, including those related to its federal program.

Recommendation – Management should be aware that this situation exists and continue to review accounting procedures to ensure adequate controls are in place to provide accurate financial reporting, safeguarding of assets and compliance with federal programs.

Response and Corrective Action Planned – The Organization recognizes the situation and will continue to monitor its financial activity to ensure assets are properly safeguarded, expenditures are allowable and the financial records are maintained in accordance with federal regulations.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

REPORTABLE CONDITION:

CFDA Number 93.959: Block Grant for Prevention and Treatment of Substance Abuse

U.S. Department of Health and Human Services  
Passed through the Iowa Department of Public Health

04-III-A      Segregation of Duties over Federal Program  
The Organization did not properly segregate custody, record-keeping and reconciling functions including those related to its federal program. See item II-A-04.

Part IV: Other Findings Related to Statutory Requirements and Other Matters

No matters were noted.

PRAIRIE RIDGE ADDICTION TREATMENT SERVICES  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2004

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding 03-II-A Prevention and Treatment of Drug Abuse

Condition: Inadequate segregation of accounting duties

Current Status: See audit finding 04-II-A